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SUBJECT: POOR EGYPTIANS YET TO FEEL BENEFITS FROM ECONOMIC

REFORMS

Sensitive but unclassified, please protect accordingly.

¶1. (SBU) Summary: Chronic low wages and lack of opportunity has lowered working-class Egyptians' motivation to work and contributed to discontent with the government's economic policies. Despite impressive macroeconomic improvements since the Nazif administration began its economic reform program, the widespread perception is that the rich have benefited while the poor continue to suffer. The Nazif administration seems to realize the need to target further reforms toward the poor and has pledged government action; however, significant results from the needed reforms will take years to materialize. End summary.

Years of Economic Woes

¶2. (U) Egyptians have long faced chronically low wages, high unemployment, widespread corruption, and a faltering education system. Although there have been fluctuations, Dr. Mona Said, Assistant Professor of Economics at the American University in Cairo, judges that the median wage, currently 2.1 LE (about 37 cents) per hour, is actually lower in real terms than it was in 1988 (2.25 in 2006 LE, about 39 cents). Unemployment has consistently been above 10% (although it dropped to 7.8% in 2006), and workers struggle even to find low-paying jobs. The pervasive culture of corruption in Egypt also stifles opportunities for legitimate advancement. The Egyptian education system perpetuates the problem since it does not adequately train students even in basic skills.

¶3. (SBU) Contacts ranging from business leaders to educators to operators of NGOs uniformly say that years of such obstacles have made the average Egyptian less motivated to work and more pessimistic about his/her future than at any time in recent memory. A telling example comes from Mohamed Ghoneim, who told econoff that one of the main reasons he founded his NGO, the Egyptian Society for Combating Unemployment, is to instill motivation, a sense of hope, and an entrepreneurial spirit that his beneficiaries lack from years of unemployment. Dr. Alia El Mahdi, director of the Center for Economic and Financial Research and Studies at Cairo University, told econoff that, due to poor job prospects and an overburdened education system, she had never in her many years of teaching seen as low levels of motivation among her students as she does now.

Backlash Against Ruling NDP

¶4. (SBU) Such economic woes have contributed to discontent

with National Democratic Party (NDP), and by extension GOE, economic policies. A leading Egyptian economic researcher and NDP member told the Pol-Econ Minister Counselor that the 2006 results of the NDP's annual internal poll on Egyptian attitudes towards the party show that, in general, Egyptians have a "very bad" opinion of the NDP. The academic went on to describe the average Egyptian's chronically poor economic situation, saying that pessimism over pervasive poverty may be one of the reasons why the NDP faced so much opposition in the 2005 parliamentary elections. In the aftermath of these elections, Prime Minister Nazif reshuffled his cabinet and told the Ambassador that the focus of his new government would be on service delivery in the health, education, transportation, and housing sectors.

Reforms - Good, But Perceived to Favor the Rich

15. (U) Macroeconomic indicators have mostly edged up since the Nazif administration began its economic reforms in 2004. Real GDP grew 5.6% in 2005 and 6.9% in 2006 (preliminary figures as of January 10, 2007). Unemployment decreased from 11.7% to 7.8% in 2006, according to the 2006 USAID-funded Labor Market Survey, with the biggest reduction coming in rural areas. Additionally, many business leaders say that, although there are still many problems, doing business in Egypt has become much easier since the beginning of the Nazif administration.

16. (U) However, overall initial gains from these reforms have been in capital, not labor, intensive sectors, supporting the perception that the rich are benefiting while the poor continue to suffer, and re-affirming innate suspicion of GOE economic policies. Dr. Samir Radwan, Managing Director of the independent Economic Research Forum, was quoted in the

press as saying that sources of growth have been natural gas, exports, tourism, the Suez Canal, and privatization proceeds, leaving out agriculture, which accounts for Egypt's lowest wage workers. Additionally, the government uses a huge part of gross national income to cover its budget deficit. All told, Radwan estimated, 40-50% of the population has not benefited from the increases in national income.

Comment

17. (SBU) The Nazif administration is well aware that it has both substance and image problems in the economy. Its primary focus remains the substance, and 2006 growth figures, combined with 2007 projections, offer some positive news. However, experts agree that reforms on the scale that the GOE is undertaking will take years, perhaps decades, before effects can be felt across the economic spectrum.

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